

AR47

Payrock
Mines
LIMITED

ANNUAL REPORT

1976



RAYROCK MINES LIMITED

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director of Discovery Mines Limited
Managing Director, Avoca Mines Limited

C. M. EVANS, Calgary
Senior Vice-President, Ashland Oil Canada Limited

H. EARL JOUDRIE, Toronto
Chairman of the Board, Ashland Oil Canada Limited

P. M. KAVANAGH, Toronto
Vice-President, Exploration, Rio Algom Limited

J. J. RANKIN, Toronto
President and Managing Director, Pominex Limited

H. J. WHELAN, Toronto
President, The Lummus Company Canada Limited

W. J. WHELAN, Toronto
Executive Vice-President, Ashland Oil Canada Limited

OFFICERS

J. C. BYRNE
President and Managing Director

H. EARL JOUDRIE
Vice-President

D. R. CROMBIE
Vice-President, Operations

D. R. McEWEN
Secretary-Treasurer

EXECUTIVE ENGINEER

L. A. BEDNARZ

SENIOR GEOLOGIST

T. ANTONIUK

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

CAMPBELL, GODFREY & LEWTAS, Toronto

ANNUAL MEETING

May 26, 1977, 11:00 a.m., Rosedale Room, Hotel Plaza II, Toronto

Directors' Report to the Shareholders:

Additional oil and gas acquisitions, a joint venture uranium exploration project in Canada with a Japanese consortium, and mining exploration activities in the United States are the highlights of the past twelve months.

Although the natural resources industry in Canada is burdened by the growing unpredictability and restrictive policies of government, we think the petroleum sector has decided advantages relative to the mining industry, characterized by its cyclical nature. While we will continue to take advantage of oil and gas opportunities as they may arise, we are not reducing our energies in mineral exploration except to be much more selective.

Cash flow of the Company for 1976 amounted to \$372,603. After deducting deferred taxes, share of loss by the equity method and extraordinary items, net profit was \$51,414. Revenue and profit from petroleum production showed little change. Exploration expenditures were significantly lower.

Working capital at year end was \$1,070,478, and investment in and advances to other companies totalled \$2,903,908. The market value of listed securities at December 31, 1976 was \$1,650,045.

Early this year Rayrock completed purchase of additional oil reserves contained in a producing waterflood operation in southwestern Ontario. Negotiations are proceeding for the purchase of substantial additional petroleum reserves in producing fields.

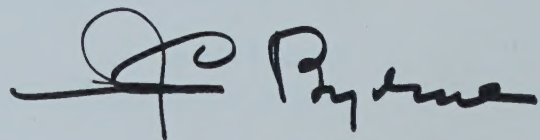
Production of the Alberta gas joint venture, in which Rayrock has a 30 per cent working interest, will show an increase in 1977. An additional 17 Medicine Hat Milk River wells will be on production by this September.

Our principal exploration involvement in Canada during 1977 will be through the Rayrock-Ryowa Joint Venture that will be conducting a regional uranium program in the Northwest Territories. Ryowa Uranium Development Corporation of Japan will fund 75 per cent of the general exploration expenditures while Rayrock, as operator, will provide 25 per cent of the budget to earn a 35 per cent equity. Upwards of \$1.0 million could be spent in grass roots exploration over a three year period. Additional expenditures would be required to develop any mineral discoveries.

In association with a Canadian mining company, Rayrock Mines Inc. has acquired mineral reservations on some 23,000 acres in northern Wisconsin and in the vicinity of a major base metals discovery. Applications have also been filed for prospecting permits on substantial additional acreage.

Through the Cordex Syndicate, Rayrock is participating in several property investigations in the western United States, two of which are silver prospects and one a uranium situation.

On behalf of the Board of Directors



J. C. BYRNE
President and Managing Director

Toronto, Canada
April 5, 1977

RAYROCK MINES LIMITED

OIL AND GAS PRODUCTION ONTARIO

RODNEY AND GOBLES FIELDS

Total 1976 petroleum production from Rayrock's three waterflood operations was 134,953 barrels and compares with 158,824 barrels recovered in 1975. The two Rodney units contributed 75 per cent of the production and Gobles accounted for the balance.

Operations at Rodney were adversely affected during March by a severe ice storm. Operating costs at Gobles were abnormal due to a high level of maintenance and rehabilitating some well equipment.

The Rodney and Gobles operations are supervised by Mr. L. F. Gaiswinkler of Chatham.

WILLEY FIELD INTEREST

Effective January 1, 1977 Rayrock purchased an 11 per cent interest in the Willey Field located 15 miles southwest of London. Negotiations are proceeding for the purchase of additional interests. Production at the Willey Field amounted to 69,600 barrels during 1976.

Discovered and placed into production in 1965, the Willey Field has been under waterflood since 1971. Operator of the field is IU Petroleum Corporation.

ALBERTA

Field production of natural gas by Rayrock and its joint venture partners increased in 1976 as addi-

tional wells were tied into gathering systems. Total production by the joint venture was 309 million cubic feet generating a net operating income of \$211,000, of which your Company's share was \$59,000. Rayrock's portion of capital expenditures during the year totalled \$157,000.

For 1977 Rayrock's net operating income is estimated at \$107,000 based on projected increases in gas output and the Company's share of capital expenditures will be \$71,000.

The joint venture, comprised of five companies and individuals, and administered by Canadian Oil & Gas Fund Ltd. of Calgary, was formed two years ago to purchase and develop proven shallow gas reserves in Alberta.

Net recoverable reserves of the joint venture are estimated to be 4.63 billion cubic feet of which 1.32 billion cubic feet would be Rayrock's share. Additional proven property purchases are planned.

In addition to the aforementioned gas joint venture, Rayrock has a modest but long standing interest in the Redwater D-3 Pool. Net operating income from this source was \$35,585 in 1976.

Please refer to the map in this report for location of our various oil and gas holdings.

MINERAL EXPLORATION

CORDEX SYNDICATE

During 1976 the Cordex Syndicate conducted exploration programs and property examinations in Oregon, Idaho, Utah, California, Arizona, as well as in Nevada.

Increased emphasis was directed to the search for uranium and to property acquisitions of merit.

Optioned was a group of 80 claims situated near Placerville, California. Although the geological environment is attractive, no specific drill targets were located. The Syndicate is also investigating select areas in southeastern Arizona which were subject to recent U.S. government airborne radiometric surveys.

Considerable interest resulted from an exam-

GAS INTERESTS PROVINCE OF ALBERTA

Fort McMurray

Jasper

Edmonton

WARWICK

YEGREVILLE

WASKWEI

RANFURLY

Calgary

PRINCESS

WEST HILDA

HILDA
GAS UNIT

SUFFIELD
EAST

Lake
Huron

U.S.A.

Sarnia

WILLEY

London

GOBLES

RODNEY

Lake
St. Clair

Windsor

Lake Erie



OIL INTERESTS SOUTHWESTERN ONTARIO

TORONTO

Lake
Ontario

Guelph

Hamilton

U.S.A.

RAYROCK MINES LIMITED

ination of a belt of rocks extending over a length of 40 miles in eastern Oregon and western Idaho. A silver prospect was optioned, and a mapping and sampling program of a large zone of low grade mineralization was undertaken. Future work will evaluate the possibility of enrichment of values at depth. A similar examination has been completed on a second silver prospect in the same district. Drilling is proposed once the land acquisitions have been finalized.

In Idaho, ten claims were staked to protect a gold showing. Several bulldozer trenches are required to adequately expose the bedrock surface of the lengthy zone before a drilling decision can be made.

Dome
The four financing participants in the 1976 Cordex Syndicate were Rayrock, McIntyre, Lacana and ~~Camilo~~. Each contributed 25 per cent of the exploration funds. Manager of the Syndicate since its inception in 1970 is Mr. John S. Livermore of Reno, Nevada.

RAYROCK-RYOWA JOINT VENTURE

A joint venture agreement was recently concluded with Ryowa Uranium Development Corporation of Japan whereunder the two parties will finance a multi-year, regional uranium exploration program in the Northwest Territories. Upwards of \$1.0 million could be spent in grass roots exploration over a three year period with Rayrock acting as the operator of the joint venture.

Ryowa, a consortium of three companies in the Mitsubishi organization, will provide 75 per cent of the general exploration costs to earn a 65 per cent interest in the assets of the joint venture. Rayrock will contribute 25 per cent of such expenditures for a 35 per cent equity.

In addition to the regional undertaking, Ryowa is participating with Rayrock in the exploration of a uranium prospect optioned from Pyx Explorations Ltd. Located 80 miles northwest of Yellowknife, the property was the subject of an underground exploration program during the 1950's. Several small, good grade lenses were outlined, but further investigative work was aborted by fire that destroyed the mining plant. More recently, surface radiometric surveys

disclosed a number of targets which are presently being examined by a winter drilling program. The joint venture may earn an 80 per cent interest in the Pyx claims should \$900,000 be spent by January 31, 1980.

WISCONSIN JOINT VENTURE

A joint venture comprised of Rayrock Mines, Inc. (60%) and Redstone Resources (40%) has acquired mineral reservations on over 23,000 acres in the vicinity of a major zinc-copper deposit located in northern Wisconsin and discovered by Exxon Corporation. This acquisition is contained within a 150 square mile area east of the Exxon deposit near the Town of Crandon.

Applications have been filed by Rayrock Mines, Inc. for prospecting permits on an additional 27,000 acres of federal and county lands, but there is no assurance that these will be granted.

An airborne and ground geophysical program will be completed by early May.

ESKER JOINT VENTURE

A regional uranium exploration program was conducted during the past summer by the Esker Joint Venture, financed jointly by Rayrock and Lacana Mining Corporation. The search, reconnaissance in nature and supported by a helicopter equipped with airborne radiometric equipment, covered a 40,000 square mile area located south and east of Baker Lake in the Northwest Territories. The survey concentrated on topographical features known as eskers, which are relatively long, narrow, winding ridges of mixed sand and gravel.

All of the anomalous radioactive occurrences detected and examined on the ground exhibited low values, and were of non-economic importance. During the reconnaissance investigation more than two dozen gossans were noted of which thirteen were sampled. Minor lead and molybdenum mineralization were identified while gold determinations returned negligible values. As the program proved

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disappointing the joint venture has decided no further exploration will be undertaken in the survey area.

PINSON PROJECT

No work was undertaken during 1976 on the 20 per cent owned Pinson gold property in northern Nevada. As previously reported, production plans were shelved pending higher gold prices. Subject to the magnitude of cost escalations a bullion price of \$175 would be required to realize an acceptable return on investment.

A feasibility study completed in 1975 estimated the capital requirements of a 300,000 ton per year conventional cyanide processing plant at \$11 million. Today this estimate would be significantly higher.

Reserves at Pinson, recoverable by open pit mining, are calculated at 1,747,000 tons averaging 0.15 ounces gold per ton. Overall stripping ratio would be 5.3 tons of waste to 1.0 ton of ore. The project also holds one other lower grade deposit situated within 13 miles of the Pinson orebody. Drill indicated reserves of this gold occurrence are 1.2 million tons averaging 0.08 ounces gold per ton amenable to surface extraction.

LAFORMA PROJECT

No exploration was conducted during the past year on the optioned LaForma gold property of Discovery Mines. While drilling results of the 1975 program were sufficiently encouraging to warrant further exploration, such has been deferred pending a substantial recovery in the bullion price.

GENERAL

An investigation has been undertaken of mining properties in Montana and Idaho which host undeveloped or partially developed mineral occurrences. The purpose of this study is to select, for purchase or option, prospects judged to hold good exploration potential.

* * * * *

Six claims were staked in Galway Township located east of the Bancroft uranium region. A scintillometer survey was conducted followed by a minor program of trenching and sampling of a large pegmatite occurrence. Assay results were not of economic value.

RAYROCK MINES LIMITED

Consolidated Statement of Earnings and Retained Earnings For The Year Ended December 31, 1976

	1976 \$	1975 \$
Revenue		
Revenue from mining operations	—	321,063
Revenue from petroleum operations	1,298,349	1,293,711
Investment income	185,700	298,341
	<u>1,484,049</u>	<u>1,913,115</u>
Expenses		
Cost of mine production	—	304,951
Cost of petroleum production	680,911	644,268
Administrative and general	164,958	124,128
Depreciation and amortization	100,172	110,997
	<u>946,041</u>	<u>1,184,344</u>
Earnings before the undernoted items	<u>538,008</u>	<u>728,771</u>
Exploration expenditures (note 1(d))	<u>313,447</u>	<u>431,733</u>
	<u>224,561</u>	<u>297,038</u>
Income and mining taxes (note 1(c))		
Current	(12,000)	(47,000)
Deferred	63,000	196,000
	<u>51,000</u>	<u>149,000</u>
	<u>173,561</u>	<u>148,038</u>
Share of loss determined by the equity method	<u>50,260</u>	<u>51,065</u>
Income before extraordinary items	<u>123,301</u>	<u>96,973</u>
Extraordinary items (note 5)	<u>(71,887)</u>	<u>(1,308,618)</u>
Net earnings (loss) for the year	<u>51,414</u>	<u>(1,211,645)</u>
Retained earnings — beginning of year	<u>418,937</u>	<u>1,630,582</u>
Retained earnings — end of year	<u>470,351</u>	<u>418,937</u>
Earnings per share before extraordinary items	<u>\$0.03</u>	<u>\$0.02</u>
Earnings (loss) per share for the year	<u>\$0.01</u>	<u>(\$0.27)</u>

RAYROCK MINES LIMITED

Consolidated Balance Sheet

ASSETS

	1976 \$	1975 \$
Current assets		
Cash	2,776	93,154
Short-term deposits	1,050,000	600,000
Accounts receivable and prepaid expenses	250,317	253,066
Interest in the current assets of the Icon Sullivan Joint Venture	19,032	47,036
Income taxes recoverable	—	52,992
	<u>1,322,125</u>	<u>1,046,248</u>
Investment in and advances to other companies (notes 1(f) and 2)	2,903,908	3,105,635
Oil and gas properties		
Petroleum and natural gas leases — at cost, less accumulated depletion (1976 — \$799,557; 1975 — \$714,557) (note 1(e))	1,636,344	1,537,097
Well equipment — at cost, less accumulated depreciation (1976 — \$179,588; 1975 — \$166,011) (note 1(e))	36,391	55,418
	<u>1,672,735</u>	<u>1,592,515</u>
Mining properties		
Mining claims — at cost	25,002	25,002
Interest in non-current assets of the Icon Sullivan Joint Venture — at estimated realizable value	46,610	166,792
Mine buildings and equipment — at cost, less accumulated depreciation (1976 — \$18,000; 1975 — \$33,535) (note 1(e))	211,772	234,021
	<u>283,384</u>	<u>425,815</u>
Other assets		
Head office furniture — at cost, less accumulated depreciation (1976 — \$18,037; 1975 — \$16,442) (note 1(e))	6,379	8,130
Leasehold rights — at cost	15,420	—
	<u>21,799</u>	<u>8,130</u>
	<u><u>6,203,951</u></u>	<u><u>6,178,343</u></u>

as at December 31, 1976

LIABILITIES

	1976 \$	1975 \$
Current liabilities		
Bank indebtedness (note 3)	163,862	222,309
Accounts payable and accrued liabilities	87,785	106,402
	<u>251,647</u>	<u>328,711</u>
Deferred income taxes (note 1(c))	459,000	396,000
	<u>710,647</u>	<u>724,711</u>

SHAREHOLDERS' EQUITY

Capital stock		
Authorized —		
5,000,000 shares of \$1 par value each		
Issued and fully paid —		
4,460,000 shares (note 4(b))	4,460,000	4,460,000
Contributed surplus	619,318	619,318
Retained earnings	470,351	418,937
	<u>5,549,669</u>	<u>5,498,255</u>
Purchase of capital stock (note 4(a))	56,365	44,623
	<u>5,493,304</u>	<u>5,453,632</u>

SIGNED ON BEHALF OF THE BOARD

J. C. BYRNE, Director

W. J. WHELAN, Director

6,203,951

6,178,343

RAYROCK MINES LIMITED

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31, 1976

	1976 \$	1975 \$
Sources of working capital		
Current operations —		
Earnings for the year before extraordinary items	123,301	96,973
Add: Items which did not require the use of working capital —		
Deferred income taxes	63,000	196,000
Share of loss on equity method	50,260	51,065
Depreciation and amortization	100,172	110,997
(Gain) loss on sales of investments	14,230	(63,330)
Loss on sale of mine equipment	21,640	—
	<u>372,603</u>	<u>391,705</u>
Proceeds on sale of investments	422,796	323,982
Proceeds on sale of equipment	21,791	—
Share of proceeds on sale of Icon Sullivan assets	50,488	18,490
	<u>867,678</u>	<u>734,177</u>
Use of working capital		
Purchase of equipment	15,576	2,826
Purchase of leasehold rights	15,420	—
Additions to oil and mine properties	184,247	1,213,000
Purchase of capital stock (note 4(a))	11,742	44,623
Investments and advances	260,689	546,109
Share of mine shut-down expense of Icon Sullivan Joint Venture	27,063	118,520
Other	—	(25,782)
	<u>514,737</u>	<u>1,899,296</u>
Increase (decrease) in working capital	352,941	(1,165,119)
Working capital — beginning of year	717,537	1,882,656
Working capital — end of year	<u>1,070,478</u>	<u>717,537</u>

RAYROCK MINES LIMITED

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1976

1. Accounting policies

The accounting policies of the company are in accordance with generally accepted accounting principles and the significant policies are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines, Inc.

(b) Translation of foreign currency

Current assets and current liabilities of the subsidiary company have been converted at the exchange rates prevailing at the year-end. Other assets and liabilities have been converted at historical rates.

(c) Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.

(d) Exploration expenditures

Costs incurred in exploring for metals, oil and gas, including annual rentals and dry hole costs, are charged to expense in the year incurred. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.

(e) Depreciation and depletion

Depreciation is calculated on the reducing balance method as follows:

Head office furniture	20%
Oil well equipment	4%-30%

No depreciation was taken on the mine equipment as the assets are presently not in use.

Depletion of oil and gas property and drilling costs is determined on the unit-of-production method based on proven reserves.

(f) Investments

The investment in shares of Discovery Mines Limited, an effectively controlled company, is carried at cost adjusted by the company's share of the earnings or losses since effective control was acquired.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

2. Investment in and advances to other companies

This item comprises:

Shares —

Investment in shares of Discovery Mines Limited (43.5% owned) accounted for by the equity method (quoted market value 1976 — \$693,600; 1975 — \$860,064)

	1976	1975
	\$	\$
830,656		856,046
1,291,319		1,763,070
608,446		372,017
2,730,421		2,991,133
101,561		69,692
71,926		44,810
173,487		114,502
2,903,908		3,105,635

Other listed shares — at cost (quoted market value 1976 — \$956,445; 1975 — \$1,591,245)

Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off

Advances to —

Discovery Mines Limited

Other

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. Security for bank loans

Certain producing natural gas properties are pledged as security for the bank indebtedness.

RAYROCK MINES LIMITED

4. Purchase of capital stock

- (a) During the year the company purchased 18,000 of its own shares at a cost of \$11,742 (1975 – 55,000 shares for \$44,623). The shares are being held to meet requirements of the employees' stock option plan.
- (b) During 1975 the company granted options to five employees covering 50,000 shares of stock at \$0.90 per share. The options may only be exercised as to 20,000 shares in the first year, 15,000 shares in the second year and 15,000 shares in the third year. All options expire July 28, 1980. No options were exercised during the year.

5. Extraordinary items

	1976 \$	1975 \$
Write-down of shares and debentures of Avoca Mines Canada Limited –		
Owned directly by Rayrock Mines Limited	–	(273,567)
Proportion, on an equity basis, of those owned by Discovery Mines Limited	–	(895,766)
Share of mine shut-down expenses net of gains or losses on sale of fixed assets of		
Icon Sullivan Joint Venture	(96,757)	(44,646)
Proportion, on an equity basis, of other extraordinary items reported by		
Discovery Mines Limited	<u>24,870</u>	<u>(94,639)</u>
	<u>(71,887)</u>	<u>(1,308,618)</u>

6. Remuneration to directors and senior officers

Directors and senior officers, as defined in the Business Corporations Act (Ontario), received direct remuneration in the year ended December 31, 1976 of \$138,362 (1975 – \$122,250).

7. Contingent liabilities

The company is one of the defendants in a \$2,000,000 lawsuit which has commenced in the Superior Court of Quebec by certain Cree Indian bands in northwest Quebec relating to an alleged environmental problem. The other defendants are Kerr Addison Mines Limited, Newmont Exploration of Canada Limited and Gunnex Limited. In the opinion of legal counsel for the company, it is not possible to predict the outcome of this action.

8. Anti-inflation

The company is subject to restraints of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

9. Reclassification

Certain figures in the 1975 financial statements have been reclassified to conform to the presentation adopted in 1976.

10. Subsequent event

Subsequent to the year-end, the company acquired an 11% interest in a producing oilfield and is negotiating to acquire an additional interest in the same field. Should the negotiation be successful, the cash outlay will approximate \$1,000,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Rayrock Mines Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 11, 1977

COOPERS & LYBRAND
Chartered Accountants

